

PRIMARY RESEARCH

Sharī'ah Governance in Islamic Banking Institutions in Pakistan: An Empirical Investigation

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Abstract. The study investigates the impact of essential components of Sharī'ah governance (SG), i.e., board of directors, executive management, Sharī'ah Supervisory Board, Resident Sharī'ah Board Members and Sharī'ah Audit (independent variables) towards enhancement of SG (dependent variable) of Islamic banks in Pakistan. The study is based on primary data and Multinomial logistic regression analysis is used by categorizing the level of SG into three, i.e., low, medium and high level. The study concludes that all the independent variables are presenting a strong association with high level of performance of SG relative to medium level (referent group) except "Sharī'ah review and audit" which is showing negative sign. The negative sign depicts that the high level of performance of SG is likely to be deteriorated by 1.48 times as the level of "Sharī'ah review and audit" improves. This result is very intuitive since it has been often observed that too much audit review and control hurts and can lead to lower performance in the short run. The overall results find that SG can be strengthened by enhancing efficiency of the independent variables.

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INTRODUCTION

Islamic Banking and Finance (IBF) is one of the rapidly growing business in global finance, Islamic banks are operating in all Muslim and many non-Muslim countries. In Pakistan, the move to promote Islamic finance was initiated in 1980s. Ayub (2002) The Interest (*ribā*) is prohibited in Islam. Modern banking interest is also a type of *ribā* and therefore prohibited.

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(Khan, 2000; Usmani, 2008). The contemporary IBF system has been introduced as an alternative to the conventional system. Islamic Banking has to conform to the Sharī'ah guiding principles by avoiding interest and other prohibited contracts/activities. As such, in order to ensure Sharī'ah compliance, contracts, products and services are supposed to be approved and supervised by the SSB or the Sharī'ah advisor (Shahzad & Hameed, 2018).

The customers of Islamic banking require Sharī'ah compliance (Ayub, Shahzad, & Rehman, 2019; Shahzad, Saeed, & Ehsan, 2017; Miskam & Nasrul, 2013; Hasan, 2011). Strong and effective Sharī'ah governance (SG) practices boost the level of confidence in Islamic banking. Without proper SG mechanism, the banks would be facing risk of Sharī'ah non-compliance, loss of revenues and the reputational risks.

Different Regularity authorities all over the world have issued numerous standards and guidelines to enhance SG practices in the Islamic Financial Institutions (IFIs). From the Pakistani perspective, the SG Framework (SGF) issued by the SBP is an initiative to strengthen the SG system in IBI(s) (Ayub *et al.*, 2019; State Bank of Pakistan, 2018). The main objective of this paper is to investigate the impact of the essential components of the SG, i.e. Board of Directors (BODs), Executive Management (EM), Sharī'ah Supervisory Board (SSB), Residents Sharī'ah Board Member (RSBM) and Sharī'ah Audit (SA) on the enhancement of SG of Islamic banks using primary data.

LITERATURE REVIEW

Islamic banking was initially started in Pakistan in the early 1980s with the name of "Non-Interest based (NIB) System," though later declared as non-compliant to Islamic principles by the Federal Sharī'ah Court in 1991 and by Sharī'ah Appellate Bench of the honourable Supreme Court of Pakistan in 1999 (Khan, 2000; Mansoori, 2001; Usmani, 2008). The NIB system was largely based on sale of debts / receivables and bai al Inah, both prohibited as per mainstream Islamic finance law (Ayub, 2002). Islamic Banking was re-launched in 2002, the State Bank has been allowing full-fledged Islamic banks (IB's), Islamic banking branches (IBB) or standalone Islamic banking systems of the conventional banks. To strengthen the Sharī'ah compliance environment, the State Bank of Pakistan (SBP) issues regulations from time to time (State Bank of Pakistan, 2018). Later in 2014, the SBP issued a detailed SGF which was implemented in 2015, and later in 2018, a revised and comprehensive SGF was issued (Ayub, 2016, 2019; Shahzad, 2016).

SG is a unique and significant feature of the Islamic banking and finance industry (Ayub *et al.*, 2019; Rahim, Shith, & Osman, 2012), which differentiates Islamic banking from conventional banking system. The SG ensures the Sharī'ah compliance environment in Islamic banks (Ayub, 2016; Ayub *et al.*, 2019). To implement SG more appropriately and effectively in the Islamic banking industry, the main components of SG should play their role. These components are the Board of Directors (BOD) Executive Management (EM) Sharī'ah Supervisory Board (SSB), Sharī'ah Audit (SA) (Minhas, 2012; State Bank of Pakistan, 2018).

Board of Directors

The business of the corporations is handled under Board of Directors (BoD) directions,

control and oversight. The BOD delegates their powers to the chief executive officer, and to manage the business, the authority and responsibility transmit from the CEO to the senior and executive management. The role of the BOD is of supervisory nature; they supervise and monitor the performance of the management (Saeed & Faiz, 2018).

Minhas (2012) has explained the SG, its importance, and methods which advocate strong SG system in Islamic Banks. He has discussed four pillars of SG and considered Management and BOD as the first pillar of SG. He indicates that the achievement of an organization, specially IFIs, is dependent upon the preparedness of the administration to approve and practically impose Islamic principles in the operations of an organization (Minhas, 2012). Similarly, Kunhibava (2015) has highlighted the role of the BOD's in ensuring the proper implementation of the SGF.

Rahim et al. have reviewed the significance of governance of the IFIs and highlights similarities between the IFIs and the conventional institutions. He has also suggested SG criteria for IFIs that could attract potential and existing investors (Rahim, Shith, & Osman, 2012).

Executive Management (EM)

Nazreen Tabassum and Fahim (2015) discussed the role of Sharī'ah supervisory board (SSB) and management while implementation of the Sharī'ah and recommended that the management of the IFIs should be guided by revelation. Minhas (2012) also highlighted the important role of Executive Management in the process of enactment of SG. He observed that an organization's success and especially the IFIs is dependent on the inclination of the administration of the organization to assume and implement Islamic guidelines in an organization. The establishment of acceptable resources, set-up and the ethics code for conduct of business operations and its validity in accordance with SG completely be contingent upon the administration of an organization. The strategies and the process would be insufficient if these are not realised and administered absolutely (Minhas, 2012)

Sharī'ah Supervisory Board (SSB)

SSB, or simply Sharī'ah Board (SB) is an independent group of experts in *fiqh al-mu'āmalāt*. They may also include expert members other than "*fiqh al-mu'āmalāt*" who may be experts in the field of Islamic economics, banking, law, and economics as technical members. The core responsibility of the SB is to supervise the activities of the IFI and to ensure that their business, products, and services are compliant with Sharī'ah rules. They issue fatawas and guidelines in Sharī'ah rulings (AAOIFI, 2015). Sharī'ah board members are the most important pillar of the SG, (Ayub, 2019; Ayub *et al.*, 2019). A competent, independent, and empowered Sharī'ah Board is essential to approve the Sharī'ah compliant instruments (Garis & Pellegrini, 2006). Rammal () is of the view that there is a shortage of competent Sharī'ah scholars world-wide. He suggested training of Sharī'ah scholars in Pakistan. Due to shortage, the banks are hiring incompetent members for their Sharī'ah boards (Rammal, 2015). In another study (Mohamad, Sori, & Shah, 2015) discussed the effectiveness of Sharī'ah Supervisory Committees in IB(s) in Malaysia, specifically, the issues related to

eligibility of SSB such as competency, independence, consistency and up to date knowledge and information etc. in Malaysian perspective. (Shahzad, Rehman, Saeed, & Ehsan, 2019) has pointed out the qualification of the SSB members and the Curricula of Religious Seminaries in Pakistani perspective. They concluded that the existing curricula of Deeni Madaris (Religious Seminaries) is not sufficient to understand the modern Islamic financial transactions.

Garas and Pierce (2010) examined the role of the council of Sharī'ah scholars within and outside the central banks of the countries where Islamic Banks are operating, i.e., SSB, Sharī'ah Advisor, and Sharī'ah consulting firms. The paper has also evaluated the functions of SSB. The most important find of the paper was the lack of standardization of the position of the SSB within the corporate hierarchy in IFIs. The work of the SSB can well be organized and recognized at the professional level globally if the agreement amongst themselves will be accepted only what comes from this institution (Shahzad, Rehman, Saeed, & Ehsan, 2019).

Sharī'ah Audit (SA)

Sharī'ah Audit is an independent examination of the financial transactions of IB(s) banks to ensure Sharī'ah compliance in the products and services of Islamic banks (Shahzad *et al.*, 2017).

Shafii, Abidin, Salleh, Kamaruzaman, and Nawal, (2013) have evaluated the impact of the SA function regarding the implementation of the SGF using the case study method, which includes interviews regarding the SA. In another study, Shafii *et al.* (2013) have proposed Sharī'ah compliance audit framework and concluded that the risk of Sharī'ah non-compliance could be mitigated through Sharī'ah compliance audit. Yahya and Mahzan (2012) has investigated the current practice of SA among the IFIs in Malaysia using interview methods. The paper discovered that the practices of SA are in the development stage and need improvement. Kasim (2009) has also examined the theoretical as well as practical aspects of SA in IFIs in Malaysia with the ultimate aim of identifying whether there is any gap between theory and practice? The study is based on surveys from various groups of respondents related to SA and compliance in the IFIs. The author is of the view that the concept of SA should be expended and it is necessary to develop a strong and effective SA framework to ensure the Sharī'ah compliance in IFIs.

Rahman (2013) investigated the perception and practice of SA in Bangladeshi Banks using primary and secondary data. The researcher used frequency distribution method to analyze and interpret the views of the respondents. He concluded that Sharī'ah scholars are quite satisfied; however, the other respondents i.e. professionals auditors and academia, were not satisfied with SA in Islamic banks. Besides, the Sharī'ah scholars were of the view that the internal audit should conduct SA under the guidance and supervision of the SSB, but other respondents were of the view that it should be conducted independently.

Ahmad and Al-Aidaros (2015) evaluated the importance and independence of the Sharī'ah members in Islamic cooperative banks in Malaysia using descriptive analysis through questionnaires. Based on results, 52% of Sharī'ah auditors had total independence. The auditors were of the view that there was a shortage of team members as also the lack of experience

in the team members. To enhance the knowledge, the respondents were of the view that the auditors should improve their educational level and expertise.

Kasim (2009) explored empirically the gap between "the desired" and "the actual" practice of SA in the IFIs of Malaysia. The study found that there was a gap between both concepts, and the SA had not any considerable impact on the IFIs in Malaysia.

Shahzad et al. (2017) investigated the SA mechanism and challenges faced by IFIs after the implementation of SGF issued by SBP. They suggested that as SA was a different activity as compared to the conventional audit, there was a need for training and development of audit staff of the audit firms to conduct external SA in IFIs.

DATA AND METHODOLOGY

Data and Methodology The core objective of this study is to investigate the impact of the basic components of SG, i.e., the BODs, EM, SSB, RSBM and SA (independent variables) on the improvement in SG (dependent variable) of Islamic banks. The primary data from 500 respondents of various fields including Sharī'ah Scholars, SSB members, bankers, academia, Sharī'ah auditors, auditors of reputed firms and the general public, was collected through a survey based on a structured questionnaire.

TABLE 1
Maqāṣid al-Sharī'ah List of Respondents

Sample Category	Number of Samples
Sharī'ah Scholars	100
Sharī'ah Supervisory Board Members of IBIs	100
SA Members of IBIs	50
Scholars and Students of Islamic banking and finance	130
Depositors and General Public	100
Auditors of Reputable firms	20

It can be concluded from the overall survey data analysis that most of the respondents are male and have academic qualifications relevant to Islamic finance, audit, and corporate governance. The respondents are also holding reputed positions in the Islamic finance industry, academia and religious academia, which make the sample of the study a very significant and valid portfolio of respondents for the survey designed for this study. Various respondents are holding professional and academic positions regarding Sharī'ah audit and governance and this factor enhanced the robustness of data gathered through a survey.

The multinomial logistic regression analysis has been used by categorizing the level of SG into three, i.e., low, medium, and high levels of SG. Data reliability and consistency is checked through Cronbach's alpha and heteroscedasticity. The data collected for this research study is through primary means, i.e., questionnaires with five-point Likert scale. The independent variables of this study are having the ordinal form of data. The logit model was first used in the 19th century for the explanation of the growth of populations and the course of autocatalytic chemical reactions or chain reactions.

There is an extension or generalization of binary logistic regression in which more than two ordinal outcomes are taken into consideration, which is called "multinomial logistic regression model". In this model, the log odds of the results are modelled as a linear combination of the predictor variables. Multinomial logistic regression is a generalization of logistic regression, which is used to predict the probabilities of different possible outcomes of a categorically distributed dependent variable given a set of independent variables (El-Habil, 2012).

The basic procedure and setup is the same for the multinomial logistic regression model as in simple logistic regression. The only difference between the two models is that in the "multinomial logistic regression model" the dependent variables are categorical rather than binary. The equation for this research study in light of the multinomial logistic regression model is as follows:

$$\text{Logit}(\text{Sharī'ah}_\text{Governance}) = \beta_0 + (\text{BOD}) \cdot \beta_1 + (M) \cdot \beta_2 + (\text{SSB}) \cdot \beta_3 + (\text{RSA}) \cdot \beta_4 + (\text{SA}) \cdot \beta_5$$

STATA 11.0 software has been used to analyze the model mentioned above. STATA has categorized the various regression analysis in the context of the data structure and sequence, which means that if the data sequence is known to the researcher, it would be quite easy for him/her to select the regression model to implement on the data.

RESULTS AND DISCUSSION

The data have been gathered through a questionnaire under seven different heading, which later become dependent and independent variables for the research study. The dependent variable is Sharī'ah Governance, while independent variables are BODs, Executive Management, Sharī'ah board, RSBM (independence of Sharī'ah Board Member/RSBM), and Sharī'ah review. Each heading included various questions, ranked on a five-point Likert scale, to address different aspects in order to make the variable more robust and comprehensive. In order to extract the final numerical value for each variable, simple average of outcomes of various questions under each heading is taken.

The dependent variable was divided into three categories, i.e., 1 as a low level of performance / efficiency of SG, 2 being medium level, and 3 as a high level of SG quality. These categories were extracted as follows; a simple average of the outcomes of questions asked under the heading of SG was done, which gave us a single value for the dependent variable. These values were later categorized into three sections, i.e., 1, 2 and 3. It implied that average values of 1 to 1.5 falls in the first category, average values of 1.6 to 3.0 fall in the second category and third category contain average values range 3.1 to 5. It finalized the data for the dependent variable as well, and now the data will be exported to STATA for analysis of Multinomial logistic regression.

Data Reliability and Consistency Check

This section is about reliability and consistency of the data finalized for the execution of multinomial logistic regression. Cronbach's alpha is used for the measurement of internal

consistency. The value of the reliability coefficient or Cronbach's alpha of 0.70 or higher is considered acceptable for the analysis of data. The value of 0.70 and above is termed as good, 0.80 and above is better and, 0.90 and above is best, i.e., data sets and variables are reliable in the sense of their estimation and result extraction. The results of Cronbach's alpha of the data for this research study are mentioned below:

TABLE 2
List of Respondents

Sample Category	Number of Samples
Sharī'ah Scholars	100
Sharī'ah Supervisory Board Members of Islamic banks	100
Sharī'ah Audit Members of Islamic banks	50
Scholars and Students of Islamic banking and finance	130
Depositors and General Public	100
Auditors of Reputable firms	20

TABLE 3
Cronbach's alpha

Cronbach's alpha	
Average inter-item covariance:	.0882061
The number of items in the scale:	7
Scale reliability coefficient:	0.8478
Inter-item covariance (observations= 445 in all pairs)	

The value of Cronbach's alpha coefficient is 0.8478, which, according to the range of values mentioned above depicts that, the data under consideration is termed as better in the context of its reliability. The next step is to check the variance error in the independent variables, and for this purpose heteroscedasticity test of the independent variables is done. Breusch-Pagan/Cook-Weisberg test for heteroscedasticity is executed. In this regard, first of all, linear regression is done to examine the heteroscedasticity in the independent variables further. Table 4 shows the results of the linear regression of six independent and one dependent variable.

After calculating and executing simple regression, we now use command for the execution of heteroscedasticity by executing the Breusch-Pagan/Cook-Weisberg test for heteroscedasticity. Below are the results extracted from the test:

Variables: BOD (Board of Directors) EM (Executive Management) SB (Sharī'ah Board) RSBM (Resident Sharī'ah Board Member) IR (Internal Sharī'ah Review) SR (Sharī'ah Audit). The null hypothesis in the above results states that data of six independent variables are homoscedastic and do not have heteroscedasticity, and in order to not reject the null hypothesis, we need to have a p-value of more than 0.05. Therefore, the p-value of the data under examination of six independent variables is more than 0.05, and based on the

results mentioned above; it can be concluded that the data under examination do not have heteroscedasticity. Therefore, we can proceed with multinomial logistic regression analysis without going through any further analyses.

Multinomial Logistic Regression Analysis

SG, which is the response variable or dependent variable in this research study, is treated as categorical with assumptions that level of SG has no natural ordering. The second category or middle level of performance of SG (dependent variable) is taken as referent group (base outcome) and the other categories shall be analysed in reference to middle group. The analysis and description of multinomial logistic regression for this research study shall be done in respect of two ways; multinomial logistic regression coefficients and relative risk ratios. Below are the results of multinomial logistic regression coefficients which are followed by introductory details, and then explanation or interpretation of results.

TABLE 4
Linear Regression for Determination of Heteroscedasticity

SG	Coeff.	Std. Err.	t	P> t	[95% Conf. Interval]	
BOD	0.4588382	0.650338	7.06	0.000	0.331021	0.5866554
EM	0.1499357	0.0834959	1.80	0.073	-0.0141668	0.3140381
SB	0.2011491	0.0728912	2.76	0.006	0.057889	0.3444092
RSBM	0.170596	0.0473337	0.36	0.719	-0.0759697	0.110089
IRSBM	0.0310187	0.0464277	0.67	0.504	-0.0602301	0.1222674
SR	0.0397778	0.0629135	0.63	0.528	-0.083872	0.1634276
Cons	-0.0598561	0.1007537	-0.59	0.553	-0.2578769	0.1381647
Number of obs.	445					
F (6, 438)	64.98					
Prob > F	0.0000					
Adj. R ²	0.4637					

TABLE 5
Breusch-Pagan/Cook-Weisberg Test for Heteroscedasticity

Ho: Constant variance	
<i>chi</i> ² (6)	12.51
Prob > <i>chi</i> ²	0.0515

Table 6 shows the detailed analysis of data obtained through a survey for the examination of relationship and impact of independent variables of the study on performance or excellence of SG. The Pseudo R² mentioned in the results is known as McFadden’s pseudo R², and it is mentioned here because logistic regression does not have any equivalent to R² calculated in OLS regression. The pseudo R square of logistic regression is not equivalent or similar to R square of OLS regression; and therefore, it is recommended not to compare the values of pseudo R square in the context of R square of OLS regression.

TABLE 6
Multinomial Logistic Regression Coefficient

Sharī'ah Governance (SG)	Coefficient	Std. Err.	Z	P>z	[95% Conf. Interval]	
1 Board of Directors	-1.652607	.3608459	-4.58	0.000	-2.359852	-.9453617
Executive Management	-.6746596	.4252916	-1.59	0.11	3 -1.508216	.1588967
Sharī'ah Board	-.4997839	.3585548	-1.39	0.163	-1.202538	.2029705
Resident Sharī'ah Board Member	-.0268014	.2298313	-0.12	0.907	-.4772625	.4236597
Independence of SBM/RSBM	-.0395304	.2322825	-0.17	0.865	-.4947957	.4157349
Sharī'ah Review & Audit	-.0408589	.3136068	-0.13	0.896	-.655517	.5737992
_cons	7.548813	.8616052	8.76	0.000	5.860098	9.237528
2	(base outcome)					
3						
Board of Directors	1.708592	.5279254	3.24	0.001	.6738772	2.743307
Executive Management	.0991507	.7267883	0.14	0.891	-1.325328	1.52363
Sharī'ah Board	1.390262	.859003	1.62	0.106	-.2933533	3.073877
Resident Sharī'ah Board Member	.4283506	.5955311	0.72	0.472	-.738869	1.59557
Independence of SBM/RSBM	.4013879	.5073123	0.79	0.429	-.592926	1.395702
Sharī'ah Review & Audit	-1.485787	.7605894	-1.95	0.051	-2.976515	.004941
_cons	-8.998666	1.658651	-5.43	0.000	-12.24956	-5.747769
Number of obs.	445					
LR χ^2 (12)	191.79					
Prob > χ^2	0.0000					
Pseudo R^2	0.3199					

SG which is mentioned in the above estimation table is response or dependent variable in the study and under this section are mentioned two replicates of independent variables which are estimated in the context of low (1) level of SG relative to medium (2), and high (3) level relative to medium (2). The medium level, which is represented by value 2, is taken as a base outcome in this model and other both levels of SG are estimated with this base outcome. The multinomial logistic regression estimates k-1 models, where k is the number of levels of the dependent variable and in the case of this research study, the number of outcomes is 3.

The next column of the estimation data mentions details of the logistic regression coefficient and these are called estimated multinomial logistic regression coefficients.

In this study, the middle level of excellence and efficiency of SG is set as base outcome or referent group. The interpretation from low level relative to referent group i.e., medium level in the context of board of directors. In this regard, for a one unit increase in level of performance of board of director for low level of SG relative to medium level, keeping all other variables constant, the multinomial log-odds for low level of SG to medium level would be expected to decrease by 1.65 units.

Similarly, on the same parameters and format, all other variables can be interpreted in relation to the low level of SG relative to medium level. The second independent variable is executive management and keeping all other variables constant if we do a one-unit increase in executive management for the low level of SG relative to medium level, it would be expected to decline by 0.67 unit. The result for the independent variable of Sharī'ah board in the context of a low level of SG relative to medium level, which is referent group, declines by 0.49, and in the context of RSBM by 0.02.

In short, the results of the details mentioned above can be summarized in the way that a probability of occurrence of the low level of SG relative to medium level is less while seeing the results of all independent variables. It can be restated that the probability of occurrence of medium level of excellence of SG increases when one unit increase in the level of independent variables is initiated. Now, below is mentioned the interpretation of results of the high level of performance or excellence of SG, which is ranked as 3, in relation to base outcome or referent group which is the medium level of excellence of SG.

The outcomes of the regression coefficient in the category of high performance or excellence SG is giving us all positive values of the independent variable except one. It can be stated that all the independent variables contribute positively to the enhancement of a high level of excellence or performance of SG when looking with the base outcome.

The independent variable which is showing a negative trend is Shari'ah review and audit, which means that keeping all other independent variables constant, if we increase the level of performance of Shari'ah review and audit for a high level of SG, the performance of SG would decline by 1.48 units. It can be concluded that independent variables contributed positively to achieving a high level of performance or excellence of SG. In other words, the probability occurrence of a high level of performance or excellence of SG relative to medium level (base outcome) is more. The overall conclusion of analysis and interpretation of the results of the multinomial logistic regression coefficient is that the independent variables of this study contribute positively to the enhancement of performance or excellence of overall SG.

Relative Risk Ratios

In order to enhance the robustness of the results mentioned in the previous section, data has also been analyzed through relative risk ratios. The relative risk ratio or risk ratio, in general, elaborates the strength of association among different variables and in this research study, the relative risk ratios shall present the level or strength of association of dependent variable (Shari'ah governance) and independent variables of the study. A detailed overview of the results of relative risk ratio is mentioned below, which are extracted through Stata and come under the heading of multinomial logistic regression. The results mentioned in Table 7 are quite similar to the multinomial logistic regression coefficient with few differences. Initial details are all the same, but the only difference pertains to the column of the relative risk ratio. Looking at the results with a low level of SG relative to medium level of SG, the level of association of dependent variables and independent variables is less than 1. All the independent variables are presenting a similar sort of trend in this section, which means that the strength of independent variables with a low level of performance or efficiency of SG is less. The above mentioned description of results can be explained in simple manners as: independent variables used in the study are positively impacting for enhancing efficiency of SG which is dependent variable of the study. It also tells us that independent variables are not contributing to achieving the low performance of SG. So, low level of SG is less preferred over the medium level of SG, or chance of occurrence of medium level of SG increases as compared to a low level.

TABLE 7
Multinomial Logistic Regression

Sharī'ah Governance (SG)	RRR	Std. Err.	Z	P>z	[95% Conf. Interval]	
1						
Board of Directors	.1915499	.06912	-4.58	0.000	.0944342	.388539
Executive Management	.5093298	.2166137	-1.59	0.113	.2213044	1.172217
Sharī'ah Board	.6066617	.2175215	-1.39	0.163	.3004306	1.225036
Resident Sharī'ah Board Member	.9735546	.2237533	-0.12	0.907	.6204796	1.527542
Independence of SBM/RSBM	.9612407	.2232794	-0.17	0.865	.6096954	1.515484
Sharī'ah Review & Audit	.9599646	.3010515	-0.13	0.896	.5191736	1.774998
2	(base outcome)					
3						
Board of Directors	5.521182	2.914772	3.24	0.001	1.961829	15.53828
Executive Management	1.104233	.8025434	0.14	0.891	.2657158	4.588851
Sharī'ah Board	4.015901	3.449671	1.62	0.106	.7457586	21.62557
Resident Sharī'ah Board Member	1.534724	.913976	0.72	0.472	.4776538	4.93114
Independence of SBM/RSBM	1.493897	.7578721	0.79	0.429	.5527077	4.037807
Sharī'ah Review & Audit	.2263242	.1721398	-1.95	0.051	.0509702	1.004953
Number of obs.	445					
LR χ^2 (12)	191.79					
Prob > χ^2	0.0000					
Pseudo R^2	0.3199					

Similarly, the results of the high level of performance and excellence of SG and level of association of independent variables with a dependent variable to achieve this level in relation to medium level (base outcome), shows us a trend of the high level of association among dependent variable with independent variables. All the independent variables are presenting a strong association with the high level of performance of SG in relation to medium level except one variable, the Sharī'ah review and audit. The same variable presented out of the trend results in the multinomial logistic regression coefficient when all the independent variables were contributing positively to the high level of SG performance when looking in relation with a medium level of performance of SG. In general, the overall results of relative risk ratios predict that independent variables of this study have a direct and strong relationship with a high level of performance and efficiency of SG. Therefore, both sections of logistic regression results, i.e., multinomial logistic regression coefficient and relative risk ratio, illustrate the significance of independent variables towards positive contribution in the enhancement and achievability of high level and efficient position of SG in general.

CONCLUSION & RECOMMENDATIONS

Conclusion & Recommendations Sharī'ah governance plays a significant and pivotal role in the performance and operational efficiency of the IBFIs in general (Grassa, 2015; Haqqi, 2014; Muhamad Sori, Mohamad, & Shah, 2015; Rahajeng, 2013). It is because of the pivotal role of corporate governance in the conventional financial industry, and in this regard the responsibilities of IFIs become greater while showing compliance with business practices of corporate governance and also making it in line with Sharī'ah guidelines.

Keeping in consideration the importance of SG, current research study is focused on empirical examination of impact of various factors, i.e., board of directors, executive management, Sharī'ah board, and resident Sharī'ah board member, independence of Sharī'ah board member/RSBM, and Sharī'ah review and audit (independent variables) on SG (dependent variable). The study has used primary data gathered through the survey, and then data is empirically analyzed on Stata. Multinomial logistic regression analysis is used, which is termed as the most suitable parametric model for empirical estimation of survey data.

The research study has limited its empirical analysis and theoretical discussion to Islamic banking institutions in Pakistan and performance factors of SG. The study is not comparative and therefore, no other country is taken under discussion. Another reason of confining the research study within the boundaries of Pakistan is that different countries and international institutions have issued or applied specific SG frameworks for their regions and therefore, discourse of the current research does not accommodate it. The novelty of empirical analysis of performance factors of SG also does not let the researchers to add any framework as comparison.

The estimation of multinomial logistic regression is presented in two contexts; first is coefficient and secondly relative risk ratios. The multinomial logistic coefficient tells that how much and in what direction the independent variables are impacting the dependent variable, whereas, relative risk ratio helps to empirically determine the level of association among independent and dependent variables. The results of both sections tell that the high performance of SG is enhanced and positively contributed by all the independent variables except one, i.e., Sharī'ah Review and Audit. This independent variable shows a negative contribution towards a high level of performance and efficiency of SG and also the negative level of association when checked in the relative risk ratio section.

Therefore, the results extracted in this research study differ substantially from the literature reviewed in this research study. The literature in general discussed the importance and significance of different items of SG, e.g., BODs, EM etc. and explained that all the items of SG hold equal importance in enhancing the performance of SG. But the current research study emphasizes on the fact of significance of SG, the level of impact of its different items and their impact on the overall performance of an Islamic bank. The empirical results of this research study endorsed the discussion on the importance and significance of different items in enhancing SG, but these results differ from already published literature in the context of negative or inverse relationship of high performance of SG and Sharī'ah review and audit. These variation in results from existing literature may untap an opportunity for further research on why the specific item is negatively impacting the high level of performance of SG. The study also holds unique position in already published literature in the context of its empirical analysis and examines all aspect of SG separately in a single study. This would allow researchers to have comprehensive picture of performance factors of SG.

The research study carries significant suggestions and policy guidelines for the IBIs in Pakistan in specific, and non-bank IFIs of the country in general. The empirical analysis of different aspects of SG would enable the policy makers of financial sector to ponder upon specific aspects for enhancing the performance of Islamic financial industry of the country.

Islamic economic system is the ultimate goal and IBIs and IFIs are the most strategic segment of the whole system. Therefore, in order to have a viable and sustainable Islamic economic system, its organs need to be strong and effective in high performance. It is for this reason, this research study has focused its discussion on vital organ of Islamic financial systems whose high performance lets enhancement in consumers' confidence.

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